

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05  
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R 051656Z JAN 78  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 9665  
TREAS DEPT WASH DC

UNCLAS ROME 0216

E.O. 11652: N/A  
TAGS: EFIN, IT  
SUBJECT: OFFICIAL ITALIAN POSITION ON CURRENT EXCHANGE MARKET  
DEVELOPMENTS

REF: 77 ROME 20669

1. /SUMMARY/. MAIN THRUST OF RECENT STATEMENTS ON DOLLAR BY  
TREASURY MINISTER STAMMATI AND BANK OF ITALY GOVERNOR BAFFI  
HAS BEEN TO REASSURE ITALIANS ON NEUTRAL, IF NOT BENEFICIAL,  
EFFECTS OF DOLLAR DECLINE FOR ITALY. ITALIAN OFICIALS ARE  
CONCERNED, HOWEVER, ABOUT THE EFFECT OF CONTINUALLY DEPRECIATING  
DOLLAR ON PRICING POLICIES OF RAW MATERIAL EXPORTERS, E.G., OF OPEC.  
/END SUMMARY/.

2. IN RESPONDING TO SERIES OF QUESTIONS IN CURRENT ISSUE  
OF ITALIAN WEEKLY "IL MONDO", BANK OF ITALY GOVERNOR QUOTED  
RECENT STUDY BY JOINT ECONOMIC COMMITTEE ON TRENDS IN U.S.  
INTERNATIONAL COMPETITIVENESS TO EFFECT THAT U.S. COMPETITIVENESS  
IS DOWN SLIGHTLY FROM ITS HIGH IN 1973-1974 BUT UP FROM 1971  
LEVEL. BAFFI CONCLUDED THAT THE WEAKNESS OF THE DOLLAR WAS,  
THEREFORE, PARTIALLY ATTRIBUTABLE TO OTHER FACTORS, I.E., THE  
DIFFERENCE BETWEEN THE PHASE OF THE BUSINESS CYCLE IN THE UNITED  
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STATES AND IN THE REST OF THE WORLD AND THE WEAKNESS OF DEMAND  
IN SOME IMPORTANT U.S. EXPORT MARKETS. HE SAID CENTRAL BANK  
INTERVENTION COULD LIMIT EXCHANGE RATE FLUCTUATIONS IN THE SHORT  
RUN, BUT THAT A LASTING EQUILIBRIUM REQUIRED THE ELIMINATION  
OF THE PAYMENTS IMBALANCES BETWEEN THE OIL EXPORTERS AND THE  
INDUSTRIALIZED COUNTRIES AND ALSO AMONG THE INDUSTRIALIZED  
COUNTRIES THEMSELVES. BAFFI SAID RECENT EXPERIENCE HAS SHOWN

THAT EXCHANGE RATE CHANGES WILL NOT IN THEMSELVES BRING ABOUT SUCH AN EQUILIBRIUM SINCE THESE ACT TO INCREASE OR DECREASE INTERNAL PRICES SO AS TO MAINTAIN UNCHANGED INTERNAL RELATIVE PRICE AND COST STRUCTURES AND RELATIVE COMPETITIVE POSITIONS. BAFFI ALSO SAID THAT SHOULD THE DECLINE OF THE DOLLAR CONTINUE PRESSURES WOULD MOUNT FOR INCREASES IN RAW MATERIAL PRICES "AT THE SOURCES." REGARDING EFFECT OF THE DOLLAR WEAKNESS ON ITALY, BAFFI POINTED TO STABILITY OF LIRA/DOLLAR EXCHANGE RATE AND POSITIVE CONSEQUENCES FOR DOMESTIC PRICES SINCE ALMOST HALF OF ITALIAN IMPORTS ARE PAID FOR IN DOLLARS. HE ALSO SAID THAT LIRA DEPRECIATION AGAINST STRONG EUROPEAN CURRENCIES AND YEN WOULD HELP RECONSTITUTE MARGIN OF COMPETITIVENESS OF ITALIAN EXPORTS, GIVEN HIGHER RATE OF INCREASE IN UNIT COSTS AND PRICES IN ITALY THEN IN ITALY'S MOST IMPORTANT TRADING PARTNERS.

3. TREASURY MINISTER STAMMATI MADE SAME POINTS ABOUT EFFECT OF DOLLAR WEAKNESS ON ITALIAN ECONOMY IN CURRENT ISSUE OF "L'ESPRESSO" IN ARTICLE ENTITLED, "OVER US THE STORM HAS PASSED WITHOUT DAMAGE."

GARDNER

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NNN

## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, FINANCIAL MARKETS  
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**Decaption Date:** 01 jan 1960  
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**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition Event:**  
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**Status:** NATIVE  
**Subject:** OFFICIAL ITALIAN POSITION ON CURRENT EXCHANGE MARKET DEVELOPMENTS  
**TAGS:** EFIN, IT  
**To:** STATE TRSY  
**Type:** TE  
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